

ATLANTA
OFFICE MARKET

THIRD QUARTER 2016

Asking rents continue to reach new peaks

Class A demand is offset by losses in Class B properties

ECONOMY

Forecast for 2017 is cautiously optimistic

Atlanta has enjoyed healthy economic growth to date in 2016, and most economists project the same or better for 2017. Dr. Rajeev Dhawan of Georgia State University's Economic Forecasting Center predicted in August that Atlanta will continue to see moderate job growth through 2018. Atlanta is projected to add 65,700 jobs in 2016, with an average of 21% of those jobs considered "premium" or high-paying. This figure was revised downward slightly from his May forecast due to global economic concerns including China's slowdown and the Brexit vote in the United Kingdom.

A variety of projects in every sector (apartments, hotels, office, stadiums, warehouses, etc.) will keep construction jobs and equipment in demand for the next several years. In addition, Atlanta continues to see an increase in housing permits in 2016, driven by large increases in multifamily construction in Cobb and Fulton counties.

In recent years, Atlanta's job growth has largely been driven by the professional and business services sector, a strong driver of office employment, as well as construction, healthcare, manufacturing, and the leisure and hospitality sector. Still, Dhawan reports that "the quality of jobs being created now is less than before," and projects that this could lead to weaker growth in retail and hospitality as consumer spending is impacted by slower wage growth.

Moody's Analytics predicts that the Atlanta MSA will outpace the national economy in 2016 with a 3.8% rise in gross metro product. Moody's forecasts that while job growth may "soften gradually over the next few quarters as challenges finding workers in high-demand fields becomes more pronounced," the presence of multiple growth engines, low cost of doing business, and strong demographics will keep metro Atlanta "an above-average performer in the long term."

DEVELOPMENT

New construction attracts firms to urbanized environments

The past several years have seen historically low levels of new development, even as demand gained strength and the market for office space tightened. Atlanta has nearly 1.7 million SF of new speculative office space under construction, in addition to more than a million SF of build-to-suit development for NCR, Comcast, State Farm, and HD Supply. Spec construction has returned in Buckhead, Central Perimeter, North Fulton, and in the Northwest near the new Braves stadium. Most of these projects are located in mixed-use or heavily amenitized locations, and 33% of the spec space under construction has been pre-leased. Even if other office projects launch in the coming months, the level of new space coming to market for lease remains well below recent demand trends.

QUARTERLY SNAPSHOT

VACANCY

**16.1%**

Up slightly from Q2's nine-year low

ABSORPTION

**59,197 SF**

Slow demand continues in 2016

RENTAL RATE

**\$23.62 PSF**

Rates continue to rise in every major submarket

UNDER CONSTRUCTION

**1.7 Million SF**

No new spec projects launched in Q3

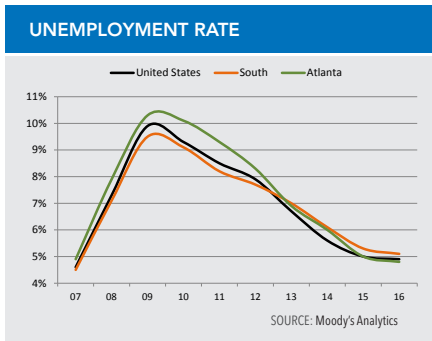
JOB GROWTH

**3.1%**

Projected Atlanta MSA job growth in 2016

ATLANTA OFFICE MARKET

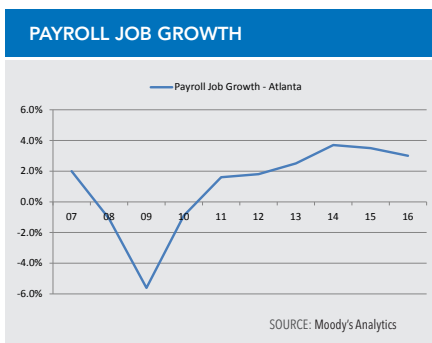
THIRD QUARTER 2016



VACANCY

Vacancy remains steady throughout 2016

Through the end of 2015, Atlanta's vacancy rate had declined every quarter for more than four years as a result of healthy absorption and limited development activity; as a result vacancy declined to 16.0%, its lowest rate in eight years. To date in 2016, vacancy has hovered around that level in each quarter, reporting market vacancy of 16.1% as of Q3. Atlanta's Class A vacancy rate is 14.6%, which is its lowest level in a decade, while the Class B vacancy rate of 18.4% is the lowest since 2009. Among Atlanta's major submarkets, overall rates are lowest in Buckhead (10.9%) and Midtown (13.5%), while the lowest Class A vacancy rates are found in those two submarkets as well as Central Perimeter and North Fulton.

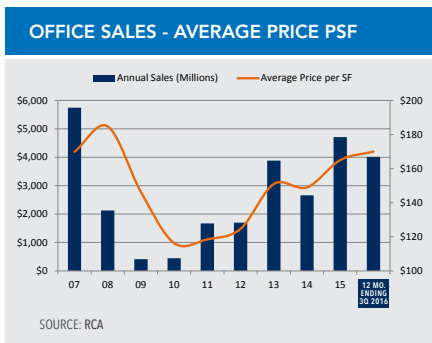


Asking rents increased in every major submarket in the first nine months of 2016

DEMAND

Absorption flat to date in 2016, with bright spots in urban areas

Net absorption was strong throughout 2015, with the Class A sector driving demand in both urban and suburban markets. In the first three quarters of 2016, urban Class A demand has continued to outpace other sectors, but the overall picture is one of a pause in demand for the first time in several years. Q2 and Q3 saw moderate demand following a negative Q1, but as of Q3 metro Atlanta's year-to-date absorption stands at less than 10,000 SF. Healthy absorption in the urban submarkets was offset by losses in suburban areas, offering evidence that demand remains strong for quality space in denser, more walkable environments such as those in Midtown and Buckhead. As such, Midtown, Buckhead, and Northwest have seen the highest levels of demand to date in 2016.



RENTAL RATES

Asking rents continue to set new records

Asking rents increased in every major submarket in the first nine months of 2016 in both the Class A and B sectors. Overall asking rents rose to \$23.62 PSF in Q3, with Class A rents rising to a record average of \$27.08 PSF. Class A rates rose by nearly 7% in the 12 months ending in Q3, while Class B rents rose by more than 5% during the same period. Rates remain highest in Class A properties in Buckhead, where asking rents rose by 5% in the past year to a current average of \$33.88 PSF. Class A rates in Midtown and Central Perimeter average approximately \$31.25 and \$28.50 PSF, respectively, while Class A rates in North Fulton have reached \$24.75; each of those averages represents a new record high for Class A space in those submarkets.

Transaction Highlights

Notable Office Lease Deals

Completed between 7/1/16 and 9/30/16

TENANT	PROPERTY NAME	LEASE (SF)	COMMENTS
Global Payments	Three Alliance Center (UC)	79,326	New Lease
Change Healthcare	Corporate Center at Deerfield	69,552	New Lease
Microsoft	8000 Avalon (UC)	43,094	New Lease

Notable Office Building Sales

Completed between 7/1/16 and 9/30/16

PROPERTY NAME	RBA	PRICE	COMMENTS
Ten 10th Street	421,417	\$150.5 million (\$357 PSF)	Acquired by Union Investment
Pershing Park Plaza	160,145	\$45.5 million (\$284 PSF)	Acquired by Franklin Street
Atlanta Plaza	650,827	\$137.5 million (\$211 PSF)	Acquired by Banyan Street



INVESTMENT

Volume slows while pricing remains strong

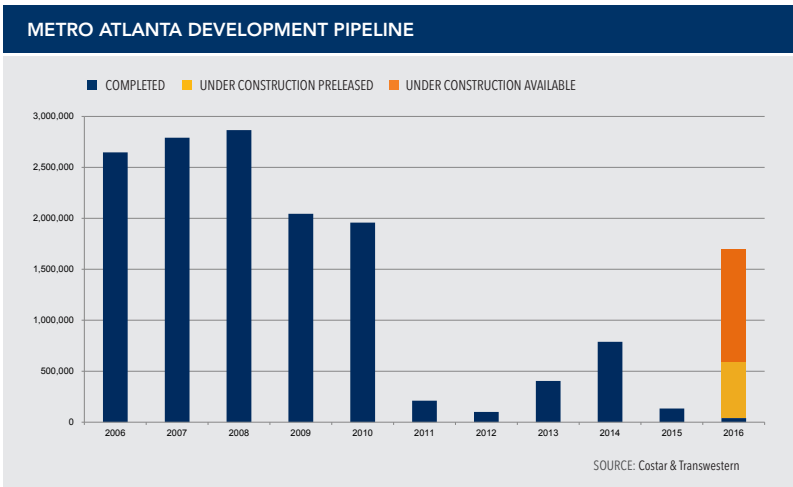
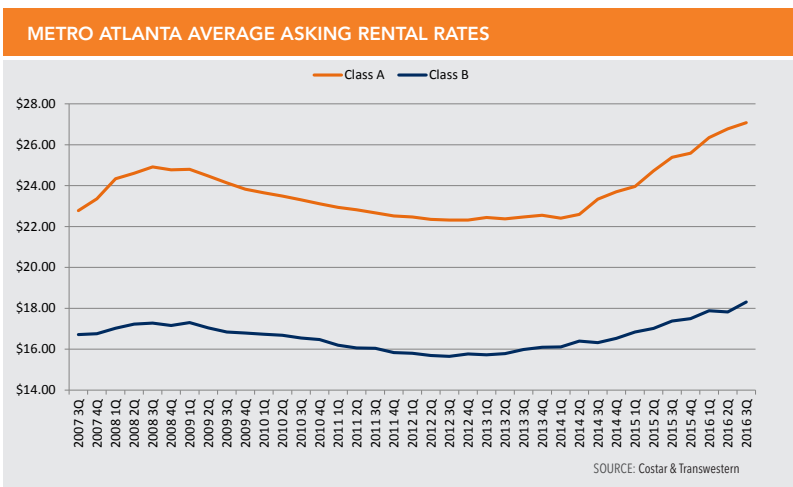
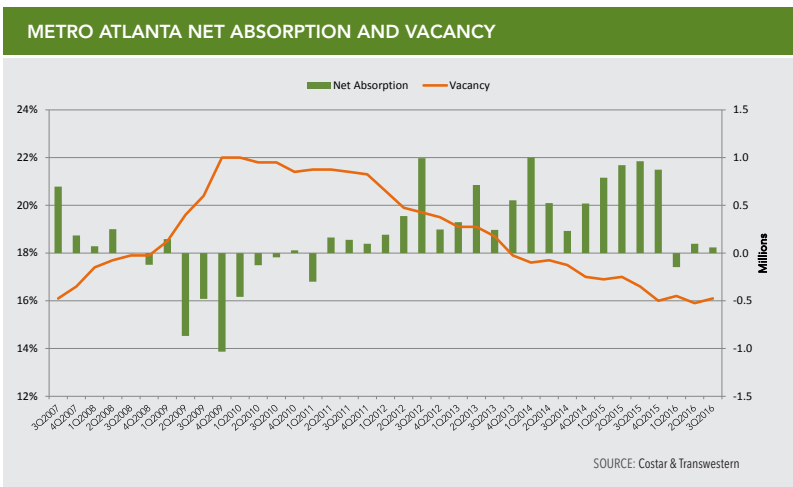
In 2015, investment sales volume was \$4.71 billion, up significantly from the previous year and the highest level of sales since 2007. The number of properties traded also rose from 2014, while the average price per square foot rose by 11% from to \$165 PSF. In the 12 months ending Q3, volume dipped to \$4.0 billion, while the average price per square foot rose from the previous period to \$170 PSF. Atlanta continues to attract investors for both well-located trophy properties and value-add opportunities. Based on the number and quality of properties coming to market, we expect to see strong sales in the fourth quarter of 2016.

Healthy absorption in the urban submarkets was offset by losses in suburban areas, offering evidence that demand remains strong for quality space in denser, more walkable environments.

FORECAST

Rent growth begins to plateau

Over the past two years, the Atlanta office market experienced tenant demand that far outstripped the amount of new product being added. Atlanta’s office market absorbed 3.6 million SF of space in 2015 alone with essentially no new completions, resulting in sharp declines in vacancy and near-record rent growth. The first three quarters of 2016 have seen much lower levels of demand, along with continuing rent growth and an expanding construction pipeline – reflecting investor and owner confidence in the market. While rents continue to hit new peaks, the rate of growth is slowing, as is the pace of new construction starts. Over the near term, vacancy is expected to remain near its current level, with several new properties delivering new available space in 2017.



ATLANTA OFFICE MARKET

THIRD QUARTER 2016

Metro Atlanta Office Market Indicators

SUBMARKET	INVENTORY (SF)	DIRECT SF VACANT	DIRECT VACANCY RATE	SUBLEASE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION	AVE. QUOTED RENT PSF
URBAN SUBMARKETS										
Buckhead Class A	16,160,486	1,755,230	10.9%	107,954	1,863,184	11.5%	137,517	168,385	506,647	\$33.88
Buckhead Class B	3,461,458	271,160	7.8%	13,709	284,869	8.2%	-19,437	32,214	-	\$24.58
Buckhead Overall	19,621,944	2,026,390	10.3%	121,663	2,148,053	10.9%	118,080	200,599	506,647	\$32.88
Downtown										
Downtown Class A	12,848,091	2,811,208	21.9%	34,195	2,845,403	22.1%	-16,395	-188,833	-	\$24.45
Downtown Class B	6,034,170	840,564	13.9%	3,316	843,880	14.0%	53,176	51,288	-	\$18.35
Downtown Overall	18,882,261	3,651,772	19.3%	37,511	3,689,283	19.5%	36,781	-137,545	-	\$23.68
Midtown										
Midtown Class A	14,674,027	1,705,634	11.6%	100,871	1,806,505	12.3%	133,178	445,079	-	\$31.21
Midtown Class B	3,352,425	606,457	18.1%	12,451	618,908	18.5%	2,759	70,303	-	\$24.08
Midtown Overall	18,026,452	2,312,091	12.8%	113,322	2,425,413	13.5%	135,937	515,382	-	\$28.70
Urban Submarkets Total										
Urban Class A	43,682,604	6,272,072	14.4%	243,020	6,515,092	14.9%	254,300	424,631	506,647	\$30.21
Urban Class B	12,848,053	1,718,181	13.4%	29,476	1,747,657	13.6%	36,498	153,805	-	\$21.52
Urban Overall	56,530,657	7,990,253	14.1%	272,496	8,262,749	14.6%	290,798	578,436	506,647	\$28.24
SUBURBAN SUBMARKETS										
Central Perimeter Class A	17,250,103	2,116,577	12.3%	321,469	2,438,046	14.1%	-155,802	-464,503	355,000	\$28.38
Central Perimeter Class B	5,359,306	1,187,979	22.2%	78,068	1,266,047	23.6%	-38,877	171,721	-	\$23.03
Central Perimeter Overall	22,609,409	3,304,556	14.6%	399,537	3,704,093	16.4%	-194,679	-292,782	355,000	\$26.56
North Fulton										
North Fulton Class A	12,620,211	1,708,645	13.5%	82,030	1,790,675	14.2%	-170,538	-277,505	228,182	\$24.77
North Fulton Class B	7,789,256	1,149,420	14.8%	21,831	1,171,251	15.0%	-47,243	6,789	-	\$18.11
North Fulton Overall	20,409,467	2,858,065	14.0%	103,861	2,961,926	14.5%	-217,781	-270,716	228,182	\$22.74
Northeast										
Northeast Class A	6,201,964	1,162,959	18.8%	96,254	1,259,213	20.3%	-7,340	105,161	-	\$20.86
Northeast Class B	10,528,498	2,773,176	26.3%	141,047	2,914,223	27.7%	54,518	-207,405	-	\$15.38
Northeast Overall	16,730,462	3,936,135	23.5%	237,301	4,173,436	24.9%	47,178	-102,244	-	\$17.25
Northlake										
Northlake Class A	3,279,592	225,766	6.9%	9,794	235,560	7.2%	-7,876	-28,124	-	\$22.84
Northlake Class B	7,920,562	1,490,120	18.8%	119,168	1,609,288	20.3%	-19,672	21,191	-	\$16.95
Northlake Overall	11,200,154	1,715,886	15.3%	128,962	1,844,848	16.5%	-27,548	-6,933	-	\$17.72
Northwest										
Northwest Class A	14,381,530	1,800,856	12.5%	198,809	1,999,665	13.9%	196,596	301,924	572,906	\$26.51
Northwest Class B	10,132,586	1,831,724	18.1%	26,420	1,858,144	18.3%	-14,422	-90,221	-	\$18.15
Northwest Overall	24,514,116	3,632,580	14.8%	225,229	3,857,809	15.7%	182,174	211,703	572,906	\$23.15
South Atlanta										
South Atlanta Class A	1,014,022	146,871	14.5%	0	146,871	14.5%	1,619	7,255	-	\$20.63
South Atlanta Class B	5,880,642	655,930	11.2%	4,742	660,672	11.2%	-13,421	-110,695	-	\$16.09
South Atlanta Overall	6,894,664	802,801	11.6%	4,742	807,543	11.7%	-11,802	-103,440	-	\$16.96
West Atlanta										
West Atlanta Class A	0	0	0.0%	0	0	0.0%	0	0	-	\$0.00
West Atlanta Class B	857,732	41,085	4.8%	6,558	47,643	5.6%	-9,143	-5,176	-	\$15.47
West Atlanta Overall	857,732	41,085	4.8%	6,558	47,643	5.6%	-9,143	-5,176	-	\$15.47
Suburban Submarkets Total										
Suburban Class A	54,747,422	7,161,674	13.1%	708,356	7,870,030	14.4%	-143,341	-355,792	1,156,088	\$25.73
Suburban Class B	48,468,582	9,129,434	18.8%	397,834	9,527,268	19.7%	-88,260	-213,796	-	\$17.33
Suburban Overall	103,216,004	16,291,108	15.8%	1,106,190	17,397,298	16.9%	-231,601	-569,588	1,156,088	\$21.79
ATLANTA TOTAL										
Overall Class A	98,430,026	13,433,746	13.6%	951,376	14,385,122	14.6%	110,959	68,839	1,662,735	\$27.08
Overall Class B	61,316,635	10,847,615	17.7%	427,310	11,274,925	18.4%	-51,762	-59,991	-	\$18.31
Overall Class A & B	159,746,661	24,281,361	15.2%	1,378,686	25,660,047	16.1%	59,197	8,848	1,662,735	\$23.62

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METHODOLOGY

The information in this report is the result of a compilation of information on key for lease office properties located in the Atlanta metropolitan area. We compile our quarterly statistics based on a defined inventory of Class A and B multi-tenant office buildings of 20,000 SF or more in size and exclude all medical, government, owner occupied and office condo buildings.



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